

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing July 2015

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#### Namibia Summary 24 July 2015

*MPs delay the completion of a new asset register, compromising President Hage Geingob's (2015-present) accountability drive. However, permanent secretaries and senior civil servants will require specific permission to pursue private business interests. The government's failure to produce an affordable land policy by July may prompt Affirmative Repositioning (AR) mass protests. The International Monetary Fund (IMF) calls for tightening fiscal policy to provide buffers against future economic shocks and the prevailing weakness of foreign reserves. Annual trade figures confirm the extent to which the foreign trade deficit has increased in the past two years. A new diamond marketing agreement between the government and De Beers SA will enable direct sales of Namibian rough stones to third parties for the first time.*

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#### MPs' asset disclosures have been postponed...

President **Hage Geingob's** (2015- present) drive to increase official transparency and accountability has hit a roadblock. **National Assembly (NA)** speaker **Peter Katjavivi** confirmed in July a delay to the publication of an updated MPs' asset register.<sup>1</sup> As all 26 ministers and their deputies are MPs, this effectively means a delay to transparency across government that Geingob had promised. Cabinet ministers were supposed to emulate Geingob and his wife who declared their personal assets in May (see *ARC Briefing Namibia May 2015*). Their declarations will be included in the listing of MPs' assets in the new register (the last one was compiled in 2009).

Katjavivi had wanted the updated register completed before the recently ended session of parliament. The NA does not reconvene until September and the register is not now expected until October at the earliest. MPs from all parties joined forces to frustrate the compilation of the new register. MPs have long complained about the format of the declaration form they have to complete. For years this provided their excuse for not proffering new information so that the old register could be updated.

Attorney general **Sacky Shangala**, a close associate of Geingob, was influential in the delay of the new register.<sup>2</sup> In mid-July Shangala successfully convinced the NA – in which the ruling **South West African People's Organisation (SWAPO)** enjoys a **two-thirds** majority – to allow for further consultations, thereby postponing approval of the form. However, opposition **Democratic Turnhalle Alliance of Namibia (DTA)** leader **McHenry Venaani** managed to thwart Shangala's proposal that further discussion of the declaration form be delayed until the end of October. Instead MPs backed Venaani's proposal that the forms be completed by September.

The current form requires MPs to declare any shares or other financial interests in companies or corporate entities; remunerated employment outside parliament, consultancies and retainers; land, property and pension assets; gifts and hospitality; travel discounts and other benefits. What is contentious is the requirement that MPs disclose all financial interests of their spouse, children and other dependents, as well as direct or indirect benefits from their relatives' financial arrangements. According to the current declaration rules, this information is kept confidential unless an MP agrees to its publication. Shangala argued that the definitions of dependents and immediate family need clarification as they do not comply with current law.

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<sup>1</sup> The Namibian, 10 Jul 2015.

<sup>2</sup> The Namibian, 17 Jun 2015

More encouragingly, under the instruction of prime minister **Saara Kuugongelwa-Amadhila**, senior civil servants will need special permission to conduct private business activities.<sup>3</sup> Many civil servants conduct unsanctioned business transactions, some in conflict with their official duties.<sup>4</sup> Announcing the decision at the end of June, Kuugongelwa-Amadhila said that civil servants could allow for permission to undertake external business activities for up to one year. Previously, permission had been infinite although under the new system MPs can apply to renew their permission.

From the end of July, every civil servant occupying a position lower than permanent secretary will need permission from the latter to conduct external remunerated work. Permanent secretaries will evaluate applications against criteria designed to identify possible conflicts of interest. Permanent secretaries had until the end of June to declare their own interests, although it is not known whether all had done so. A new unit in the prime minister's office will manage declarations, pending which, the **Public Services Commission Secretariat (PSCS)** and **Public Service Management (PSM)** department will oversee the process.

### ...the government is scrambling to head off mass urban land protests

The government is trying to formulate a credible policy to reduce the risk of urban land occupations by the **SWAPO Youth League (SYL)**-backed **Affirmative Repositioning (AR)** grass roots protest campaign. The AR has said it will organise mass occupations of vacant urban land from the end of July to force local authorities to make serviced plots available for low-cost housing. The three main AR leaders, **Dimbulukeni Nauyoma**, **George Kambala** and the SYL's **Job Amupanda** have reaffirmed that the AR will only call off planned occupations if the government commits in a contract to provide (affordable) land. This followed the failure of ministers on 9 July to attend a planned meeting with the AR to try to reach a consensus, ostensibly because home affairs minister **Pendukeni Ivula-Ithana** was abroad. The **Council of Traditional Leaders** is trying to mediate and has urged the government to begin a dialogue with the land activists. As custodians of communal land, the traditional leaders are worried that occupations may spread to rural areas.

In July, **Namibian Police** inspector general **Sebastian Ndeitunga** cancelled at short notice a press conference on the AR issue.<sup>5</sup> Reportedly this was to allow police and security forces more time to consult further on how to deal with potential land occupations. Ndeitunga had previously confirmed he would be meeting regional police commanders to coordinate tactics. He warned that the police "*will not tolerate*" those who defy Namibia's constitution, which prohibits occupation or seizure of private or public property.<sup>6</sup>

The government is pursuing a carrot and stick approach, with ministers promising a comprehensive solution to the shortage of affordable urban land plots, while warning that illegal occupations will not be tolerated. Urban and rural development minister **Sophia Shaningwa** has acknowledged the government has previously ignored the urban land issue, and acknowledged it needs to do more.<sup>7</sup> However, Shaningwa said the AR needs to clarify whether it expects land for nothing or if it is willing to pay for it.

### The IMF calls for a tighter fiscal policy stance...

The **International Monetary Fund (IMF)** has called on the government to implement a tighter fiscal policy stance following Article IV consultations in June and July.<sup>8</sup> The IMF noted that Namibia has broadly maintained robust economic growth since the 2008-09 global financial crisis, although growth slowed in 2014 (to 4.5% from 5.1% the preceding year according to preliminary national

<sup>3</sup> The Namibian, 10 Jul 2015

<sup>4</sup> Source, Namibia analyst

<sup>5</sup> New Era, 17 Jul 2015

<sup>6</sup> The Namibian, 27 May 2015

<sup>7</sup> New Era, 17 Jul 2015

<sup>8</sup> New Era, 16 Jun 2015

accounts data) mainly due to weaker demand for Namibia's main commodity exports.<sup>9</sup> It endorsed the government's expectation that growth will recover to 5% this year, supported by (additional) mining production and strong construction sector activity on major infrastructure projects, the **Husab** uranium mine and housing.

The IMF expressed concern over a number of downside risks, particularly the higher current account deficit (US\$0.9 billion in 2014), driven by an expanded foreign trade deficit, which unless it reduces would place further pressure on already low foreign reserves.<sup>10</sup> The IMF appears not to have factored in the expected boost to Namibia's export earnings from the **Chinese**-owned Husab mine which will come on stream by early 2016 and will complete a scheduled ramp up to full output by the end of 2017. Planned production is 6,800 tonnes (15 million pounds) of uranium oxide annually. Even at the current low prevailing uranium price of approximately US\$35 per pound, Husab would boost Namibia's foreign exchange earnings by some US\$0.5 billion per year. This represents an 11% increase on Namibia's export earnings of US\$4.4 billion last year, so would reduce, while not eliminating the foreign trade deficit.

Other downside risks include the volatility of **Southern African Customs Union (SACU)** revenue streams due to the slowdown in the **South African** economy, the South African government's determination to reduce payments to other SACU members<sup>11</sup> by a renegotiation of the current revenue-sharing formulae; falling collections from external tariffs due to their phasing out under **World Trade Organisation (WTO)** rules, and the coming into force of the **European Union (EU)** economic partnership agreements (EPAs) in the next year or so which will abolish tariffs on imports of EU-origin goods.

The IMF said a tighter fiscal stance would support the development of an adequate international reserve buffer (from 9.25% of GDP or 1.75 months of imports to 16-20% of GDP or 3-5 months of imports) over the medium term. This would increase Namibia's resilience to external shocks. The IMF welcomed the government's intention for fiscal consolidation (ie reducing the rate of growth in overall spending) while encouraging it to increase efforts to implement public financial management reforms and further strengthen tax administration (ie a better collection rate of taxes). It also identified recent housing market developments as another emerging risk, noting that fast growth in real estate prices (especially in **Windhoek**) poses risks to the financial sector and wider economy.

The government claims it was already aware of the IMF's downside risks. It factored in the revenue crunch from the expected decrease in SACU customs receipts in the current medium-term expenditure framework (MTEF). The MTEF covering the 2015/16 to 2017/18 fiscal years projects that SACU receipts will decrease from an estimated N\$17.1 billion (US\$1.43 billion) in 2015/16, when it accounted for 29% of total revenue, to N\$16.9 billion (US\$1.41 billion) by 2017/18. This may seem only a small decrease but MTEF forecasts are in nominal terms, not taking account of inflation, while revenue assumptions have proved over-optimistic in the past.

Finance minister **Calle Schlettwein** flagged up the possible impact on Namibia's budget and fiscal reserves in the 2015/16 budget tabled in March (see *ARC Briefing Namibia April 2015*):

*"Some fiscal consolidation ... which included expenditure-reducing and revenue-enhancing measures – [was] announced and this will help risks emanating from such a decline."*<sup>12</sup>

Schlettwein also stated the government had initiated appropriate policy responses to increasing property prices.

<sup>9</sup> IMF press release, 6 Jul 2015

<sup>10</sup> IMF press release, 6 Jul 2015

<sup>11</sup> SACU's members are South Africa, Namibia, **Botswana**, **Lesotho** and **Swaziland**.

<sup>12</sup> New Era, 16 Jun 2015

### ...the NSA confirms a severe widening of the foreign trade deficit

The **National Statistics Agency (NSA)** published annual trade statistics in July highlighting the deterioration during the past two years of Namibia's foreign trade account.<sup>13</sup> NSA figures are more up to date and also more detailed than the **Bank of Namibia (BoN)**'s annual reports. Revised 2013 data show a 4% decrease in the foreign trade deficit from a preliminary N\$17.9 billion (US\$1.5 billion), to N\$17.2 billion (US\$1.4 billion). Revised exports (including re-exports) were N\$56.4 billion (US\$4.7 billion), a 4% increase, while revised imports were N\$73.6 billion (US\$6.1 billion), up by 2%.

Namibia's position deteriorated last year, with the merchandise trade deficit widening to a record N\$26.2 billion (US\$2.2 billion), 52% higher than in 2013.<sup>14</sup> While exports increased to N\$64.4 billion (US\$5.4 billion), a 14% increase, imports increased 23.2% to N\$90.6 billion (US\$7.6 billion).<sup>15</sup> Imports of vehicles, ships and floating structures, machinery and mechanical appliances cost N\$33.3 billion (US\$2.8 billion) – over a third of total exports – up from N\$19.9 billion (US\$1.7 billion) in 2013.<sup>16</sup> As a proportion, food and fuel imports decreased due to lower prices.

Overall, the major import categories – vehicles, ships and floating structures, machinery/mechanical appliances, mineral fuels and oils, electrical machinery and equipment – accounted for 48% of all imports.<sup>17</sup> South Africa, China, **South Korea, the Bahamas and Germany** were the main import sources in 2014, accounting for 74% of total imports. It would appear that the Bahamas, a tax haven, is used for the routing of a large proportion of the machinery and related items imported by Namibia, as these goods would not have originated there. South Korea featured because of what the NSA termed 'the temporal' importation of ships, boats and floating structures to the value of N\$5.9 billion (US\$0.5 billion). Imports from South Korea were only minimal in 2013, and last year's imports were re-exported at the higher value of N\$8.9 billion (US\$0.7 billion). Overall re-exports more than doubled to N\$13.3 billion (US\$1.1 billion), including diamonds, copper and vehicles. Imports from South Africa rose by 14% and those from China by 61% (mainly electrical machinery and equipment along with other manufactured items for the Husab mine and other mining/industrial developments). South Africa remained a key supplier of food and drink, exporting goods worth N\$8.1 billion (US\$0.7 billion) last year, while Namibian exports to South Africa were worth N\$3.7 billion (US\$0.3 billion), mainly beverages, fish, live animals and meat.

On the export side, excluding the South Korean re-exports, the main commodities by value were diamonds, metal ores (including uranium), smelted copper and copper concentrates and fish. Diamonds were sold primarily to Botswana in the first instance (see new diamond agreement below), while both South Africa and **Switzerland** (Swiss-based global metal traders) expanded copper purchases, and most fish continued to be sold to **Spain, South Africa, the Democratic Republic of the Congo (DRC) and Mozambique**. The top five markets were Botswana, South Africa, Switzerland, South Korea and **Angola**; they purchased a combined 58% of total exports, including the once-off re-exports to Korea.

### More local diamond supply under new diamond marketing deal

In July, the government and **De Beers S.A.** announced agreement in principle on the terms of a new 10-year sales agreement for the sorting and sales of all rough diamonds mined by **Namdeb Holdings (NH)**.<sup>18</sup> NH is the parent company of the 50:50 government/De Beers-owned **Namdeb Diamond Corp. (Namdeb, onshore mining), and De Beers Marine (Debmaring, offshore mining)**.<sup>19</sup> The new deal will expand the supply of diamonds to the local industry and enable the government to sell rough

<sup>13</sup> Bank of Namibia, Monetary Policy Statement, 17 Jun 2015

<sup>14</sup> National Statistics Agency, *Annual Trade Statistics Bulletin 2014*, Jul 2015

<sup>15</sup> National Statistics Agency, *Annual Trade Statistics Bulletin 2014*, Jul 2015

<sup>16</sup> National Statistics Agency, *Annual Trade Statistics Bulletin 2014*, Jul 2015

<sup>17</sup> National Statistics Agency, *Annual Trade Statistics Bulletin 2014*, Jul 2015

<sup>18</sup> Source, Anglo American plc, Production Report for the second quarter ended 30 June 2015

<sup>19</sup> Source, Anglo American plc, Production Report for the second quarter ended 30 June 2015

stones to third party non-De Beers customers for the first time. Under the previous agreement, which ran from January 2007 to January 2015, some 10% of Namdeb's production by value could be sold locally, with 90% marketed to global clients by De Beers. Until now, the sale of local stones was done exclusively by the **Namibia Diamond Trading Co. (NDTC)**, a government/De Beers 50:50 joint venture. Local firms have long complained that allocations by the NDTC have been insufficient for their requirements and have restricted their commercial viability.

The negotiations were finalised in late June and both the cabinet and De Beers approved the new agreement, which is expected to be formally signed in the next month. Although the government's negotiating team led by Diamond Commissioner **Kennedy Hamutenya** had already done much of the groundwork, new mines and energy minister **Obeth Kandjoze** played a key role in finalising the deal. A key change that Kandjoze insisted on was the removal of a 'delivery entitlement' clause from the previous agreement. This enabled De Beers to determine when, the quantity, quality and price at which Namibia's diamonds would be sold to the NDTC (as with De Beers-produced diamonds from Botswana and South Africa). This is a further indication that De Beers has abandoned its one-time role of global rough diamond supply arbitrator in favour of a more arm's length role. It also means Namdeb will not be required to stockpile diamonds at its own expense – as it has up to now – during periods of weak global demand.

To take advantage of the new terms, the government is establishing a new wholly-owned diamond sales and marketing company known as **/Nore /Uis** (translation not available). According to Kandjoze, this will not compete or duplicate the functions of NDTC, which will continue to sell Namdeb stones to approved customers. It has not yet been disclosed what proportion of Namdeb's output /Nore /Uis will be entitled to market independently, but is likely to be similar to the terms of the 2011 ten-year marketing agreement between Botswana and De Beers, under which the former gained the right to sell an initial 10% of production value by the 50:50 government/De Beers joint venture **Debswana Diamond Co. (Debswana)**, rising to 15% after five years. The /Nora/Uis share appears to be in addition to the existing 10% entitlement of NDTC. De Beers has expressed its satisfaction with the new agreement.

Meanwhile, Namdeb production slipped in the second quarter of 2015. Total recoveries fell to 431,000 carats, down by 7% from the first quarter. Compared to a year earlier, output fell by 15%, while at 893,000 carats, first half 2015 recoveries were 5% lower than a year earlier.

<b>Namdeb production H1 2015-2014</b> ( <b>'000 carats</b> ) <sup>20</sup>						
	<b>2015</b>		<b>2014</b>		<b>% change</b>	
	<b>Q2</b>	<b>H1</b>	<b>Q2</b>	<b>H1</b>	<b>Q2/Q2</b>	<b>H1/H1</b>
Offshore	300	666	310	605	-3.2	10.1
Onshore	131	227	199	336	-34.2	-32.4
<b>Namdeb Total</b>	<b>431</b>	<b>893</b>	<b>509</b>	<b>941</b>	<b>-15.3</b>	<b>-5.1</b>

Lower production was mainly due to an 18% quarter-on-quarter fall in offshore recoveries to 300,000 carats, down 3% year-on-year also. However, offshore output was up by 10% at 666,000 carats for the first half of 2015, a record 75% of total production. Onshore recoveries rose by 36% quarter on quarter from the depressed level in the first quarter of 2015. But production was 34% lower than a year earlier, while first half production fell by 33%.

**Anglo American plc**, which owns an 85% interest in De Beers S.A. (the Botswana government holds a 15% equity stake) commented:

*"Production in Namibia decreased slightly as a result of lower grades and throughput at the land operations, due in part to short-term industrial action."*<sup>21</sup>

<sup>20</sup> Source, Anglo American Half Year Financial Report for the six months ended 30 June 2015, 24 July 2015.

This is somewhat puzzling given that onshore output expanded quarter on quarter in the second quarter, but probably should be taken to refer to the year on year decrease and the drop in first half 2015 recoveries.

### Implications

The delay in the completion of the new MPs' assets register is an embarrassment for Geingob but is perhaps not wholly unexpected given that MPs have been extremely reluctant during the past six years to provide the information needed to update the existing register of members' interests. The unfortunate consequence is that asset declarations by ministers and their deputies have been pushed back. This now will not happen until September, and more likely October, at the earliest. The delaying role of the attorney general is ominous; Shangala is Geingob's right hand man, which raises the question of whether he had Geingob's explicit backing. This seems unlikely due to Geingob's own stated position on transparency and accountability. If so, this raises another concern, namely that Shangala regards himself as so powerful that he can act with impunity.

The impact of the restrictions on civil servants' external business interests is uncertain. The possibility of annual renewals will weaken it. It is also not clear what activities are allowed and what the measures to prevent conflicts of interest are. The role of permanent secretaries in approving external interests is an additional grey area since it opens up the prospect of undisclosed insider tradeoffs.

The urban land issue will come to a head at the end of July, the AR-set deadline. Ministers are clearly struggling to come up with a credible policy in time, which may result in mass occupations beginning. This increases the risk of confrontations between the mainly youthful protestors and the security services. The worry is that some AR activists may try to spread the action beyond urban areas to occupy farms. Until now Namibia has been virtually free of mass dissent, but the government's fear is that violent protests will project a negative image of Namibia's internal stability to international investors.

The latest IMF review of Namibia's fiscal and economic prospects will have made uncomfortable reading for policy makers already concerned over the consequences of the country's escalating foreign trade deficit. As this is being fuelled by household borrowing to purchase upper-end consumer products, it could lead to the BoN increasing its repurchase rate again at its next monetary policy committee meeting on 19 August, probably by a further 25 basis points, in a bid to choke off continued double-digit growth in domestic credit.

Namibia is not a borrower from the IMF and has no IMF debt management or other programme in place, so the global financial body's findings are recommendatory rather than prescriptive. But with the government aware of the implications for revenue inflows of the expected decrease in coming years of Namibia's share of SACU receipts, it may have to reduce total spending to avert an unsustainable increase in the budget deficit and public debt. It is doubtful if Namibia will adopt in full the IMF recommendation that it build up an international reserve buffer since this would require action to reduce the high prevailing level of imports. This would be difficult in practice, given that a high proportion comprises machinery and equipment for mining and manufacturing developments. In addition, with the EPA agreement with the European Union due to come into effect by the year-end or early 2016, Namibia's imports of duty-free European goods will increase.

The government has responded that Namibia is already on the case with regard to promoting fiscal consolidation, the IMF's other main recommendation. The government will also hope that expanded foreign exchange earnings in 2016-17 from the Husab mine will provide a boost to foreign reserves and increase public revenue sufficiently to offset the projected decline in SACU receipts.

The new ten-year diamond marketing agreement with De Beers, which is expected to come into effect retroactively from January 2015, should result in increased local beneficiation and provide for sales to

<sup>21</sup> Source, Anglo American Half Year Financial Report for the six months ended 30 June 2015, 24 July 2015.

alternative markets. It is assumed that the rough diamonds sold by the new state-owned marketing entity will go mainly to local cutting and polishing firms, which will boost the volumes they can process. However, a proportion may also be sold on the global market, which would provide a means of validating whether Namibia is receiving the best prices under the existing arrangements.

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